



***The Rubber Ball and the Dead Cat Bounce:
Korea's Recovery from the Global Recession and Lessons for the US***

**By Sam Jaffe and Myung Oak Kim
Co-Authors, *The New Korea***

April 13, 2010

TRANSCRIPT

Dr. Jae Ku (Director, U.S.-Korea Institute): Welcome. My name is Jae Ku. I'm the director of the U.S.-Korea Institute. I see a lot of familiar faces. Students, thank you for coming, can you hear me? The acoustics doesn't seem to be ringing on this side. We've got strategic microphones placed strategically. Let me do some housekeeping first. For those of you who have blackberries, cell phones, if you could put it on off, vibration, silent, that would be helpful. Let me double-check that mine is. Yes. We're very fortunate, and I think the timing is great to have the authors of their new book, *The New Korea: An Inside Look at South Korea's Economic Rise*, to give their talk, "The Rubber Cat and the Dead Cat Bounce: Korea's Recovery from the Global Recession and Lessons for the US," which is slightly different from up there, but I think this is the more recent one.

Let me briefly introduce our speakers. Mr. Sam Jaffe is an analyst in the field of renewable energy for IDC Energy Insights, a multinational research and advisory company. Previously he ran his own consulting company, Panea Energy, focusing on energy storage and renewable energy fields. He has been a journalist, writing for publications ranging from *Scientific American* to the *Wired* to *The New Republic*, and has been on the staff of several publications, including *BusinessWeek*, *The Wall Street Journal*, and *Bloomberg*. In 2004 he has been a fellow with the IRP; for those of you from SAIS, you may know that as the International Reporting Project, and he was a fellow there. It's kind of a homecoming for him. We have better weather for that homecoming. He has a Master's from NYU and a BA from Wake Forest University and lives in Evergreen, Colorado, with his wife Myung-oak Kim and three children.

Myung-oak Kim is over here. She is currently the communications manager for the Governor of Colorado, Bill Ritter, Jr. Previously, she too was a reporter, investigative reporter for the *Rocky*

Mountain News and also for the *Philadelphia Daily News*. She's won numerous regional and national awards. She has a BA degree from NYU. Born in South Korea, now living in Evergreen, Colorado, with her husband Sam Jaffe and their three children. I think it's so timely to have a talk on this topic because we sometimes forget that Korea hasn't always been in the OECD. In 1960, the per capita GDP was 86 dollars; the GDP of the country was 2.5 billion. If you think, it's close, or over a trillion dollars. Those who were seeing Asia thought Burma in 1960 had a better chance of making it than either of the Koreas. The authors really retell the story in a different light, give new insights. And what I thought was really interesting the way they took it was, Korea's 1.0—the version from heavy steel industry—and moving to a high-tech—make that 2.0—work. And also the message for, I think this talk, and that is really relevant is, how did South Korea become the first country to really come out of the recent economic downturn, and what are the lessons? And can those lessons be emulated elsewhere, or is that specific, unique only to the South Korean's political, economic structure and culture? So we're very pleased to have Sam Jaffe and Myung Oak Kim. Take it away. Afterwards we'll open up for Q&A.

Myung Oak Kim: Welcome and thank you everyone for coming. Can everyone hear me?

Ku: Oh yeah, she's had laryngitis, so bear with us.

Kim: Welcome, thank you all for coming. We feel very honored to be here. This is somewhat of a homecoming for Sam, and it was really fun to sort of re-walk in the steps that we walked in, you know, five years ago, so we're very excited to be in Washington at this time. And we wanted to, as Dr. Ku has said, talk about the recession and how the two countries responded. But first I want to thank Dr. Ku and SAIS for inviting us, and I wanted to thank in particular Jenny Town over here for her work in arranging this talk. We'll also be talking at the Korea Economic Institute tomorrow on a different subject, but also related to the economy, so you're all welcome to come to that talk as well.

So, as you can tell from my voice, I'm not going to be able to do most of the presentation. Sam will be doing the presentation, which is a change in plan. We were going to go kind of back and forth with the presentation, but because of my voice, I'm just going to talk a little bit now, and then he'll finish up, do the rest of the presentation. Before he starts, I just wanted to say a few words about the book. We have copies over by the wall, and this book was published this month by AMACOM. AMACOM is the publisher of the American Management Association, and we're very excited about this book. I personally feel very honored that I was able to write a book, in a way to get back to my country to use the materials and stuff. So I just wanted to say a few words about why this book is unique.

There are a lot of academic books about Korea. A lot of books that talk about the Korean War, which was important back then. But there really was an absence of a book that talked about Korea in recent times, not just the tyrant years, but talking about what Korea has become since the IMF crisis, and that's what we focus on. The time frame of it is very recent.

The second thing that makes this book very unique is the writing style. Sam and I are both journalists. Sam was working for magazines; I worked for newspapers. And so we wanted to bring our writing style to this book. So the book is written really targeted to the Western world,

the Western lay world, as well as Western businesspeople. So what you're going to see when you read the book—you can read just one chapter, and you're going to get a slice of Korea. We talk about a wide variety of subjects. You can read, for example, Korea's accession in the Gulf; what will happen to North Korea. You can read about the rise of LG; you can read about a lot of different subjects. And what you see when you read the book is, it's as if somebody is talking to you and somebody's watching you from that story.

We hope that this book will be a great tool to tell the story of Korea to Westerners. It's a very important story to tell, especially now. One of the things that we do in the book that I think is very important is to incorporate history into what Korea is now. There is a strong connection between the success of Korea now and the mindset that was created over generations, over thousands of years. And so you're going to see that connection in the book. It's not just talking about what's happening now; it's connecting that to what happened in the past. So Koreans have a tremendous history, and we see that in the book. So without further ado, Sam will finish up the talk.

Sam Jaffe: Thank you ma'am. And so we're going to talk about the recession and how the two countries responded differently, and specifically what we feel the United States could learn from the Korean way of dealing with the economic cycle. And there's three fundamental takeaways from that. One is the concept of job sharing, and also hiring incentives during the downturn. Secondly is being more flexible with currency valuations and using currency valuation as a tool in the toolbox to fight the effects of the recession. And third would be, on the corporate level, long-term strategic planning, and emphasizing that and cultivating that as part of the business program. So when we say “the new Korea,” I think a lot of Westerners would automatically assume that we're talking about the Asian Tiger Korea, and the dramatic eight to twelve percent growth that happened in the sixties, seventies, eighties, early nineties. What we consider to be the new Korea is what happened in the last 10 years, and the hallmark event was, of course, the IMF crisis, which I'll talk a little bit more about. But Korea went through a very traumatic downturn approximately 12 years ago, and that changed the country significantly. And as I mentioned, that's one of the reasons we wrote the book.

When people talk about the “Miracle on the Han River,” or the Korean miracle, they're talking about this dramatic transformation of the Korean economy in the last four decades. I wouldn't call that a miracle. A miracle means that some outside force came in and altered fate. I would say that the true miracle in Korea has to do with the cultural changes that have happened in the last few decades, more so than the economic changes. The economics behind the transformation of Korea are relatively straightforward, and they are able to be copied; and, in fact, you're seeing many of the Asian countries following the textbook Korean example letter by letter, especially China. They're doing exactly what Korea did in many instances. And they're doing it successfully. It's not rocket science; you can transform your economy this way—exports, exports, exports, is the key thing.

But, as I said, the real miracle in Korea, from my perspective, is the transformation that the society has undergone. For millennia, Korea was a very poor country. It was constantly at war with its neighbors. It had a relatively xenophobic outlook on the outside world. It wanted to keep the outside world out, not embrace it and let it in. It was ethnically and racially homogeneous,

and wanted it that way. Today, Korea is a thriving democracy, a vibrant democracy. Some say vibrant is a little bit too much, but it works. It's a merit-based, capitalist society that is outcompeting most of the other countries in the world. It has embraced multiculturalism, and this is a very new theme, but much more than I would have ever imagined it could, and in some ways, more than we do here in America. It has a long way to go in that regard, but these are dramatic changes in the culture, and I find that the most startling. Finally, I would just mention that the old Korea and the new Korea—and by all that I mean historical Korea—is an integral part of the new Korea. And that's one of the things that we try to do within the book, is always give a historical and cultural context to the changes that are happening to the country.

So I'm going to go back to the IMF crisis, which happened in '97, '98. I'm being very politically incorrect by calling it the IMF crisis—that's the term that's used in Korea. Here in the U.S. and in Europe, they like to call it the Asian Financial Crisis, or some other form of that, because you don't want to blame the IMF. But really, I think it's appropriate to blame the IMF for at least part of that crisis. Essentially what happened was Korea decided to float its currency. It valued it in the wrong way, so there was a large speculative attack on the currency. The currency collapsed. As a result, the banking system collapsed. As a result, the industrial system was on the verge of collapse. The IMF came in with tens of billions of dollars and salvaged the banking system, which kept the entire economy from essentially perishing. That's great. But, they demanded a number of things of Korea and of the Korean economy: they demanded mass layoffs. They demanded a change to the cultural policy of job security in Korea. They demanded higher interest rates. They demanded a stronger won—the currency is the won. And as a result, the economy did worse. It was essentially changing everything—changing the way that Korea functioned and the way that the Korean economy was used to functioning, saying, “We know better; this is how a real economy should work,” and it was disastrous.

Luckily there were champions within the IMF who essentially altered the course of the IMF—what the IMF was demanding—and changed the demands, allowed Korea to do things the way that it felt was appropriate. And it worked. The economy recovered—in fact, it recovered dramatically, and it has essentially recovered fully from that crisis. But I think psychologically and psychically, it was such a traumatic event. And remember, this is a country that, for three decades, had changed its ways to such an extent that it embraced the outside world, embraced modern capitalism, embraced the international financial system. And it worked in that there was 10 percent growth every year, the economy was transformed—and then suddenly, in the space of months, everything collapsed, and it only collapsed in Korea. It wasn't a global recession like we have today; it was Korea-specific. There was such a tremendous shock to the system, to the national psyche, that the reverberations are still being felt today. I would say that the one thing we learned from writing this book that stands above the others is that people in Korea talk about the IMF crisis almost in the same way that we talk about World War II or the Great Depression in this country. It was truly a hallmark event, and it transformed the economy, it transformed the country. We'll talk about some of the ways that it happened.

So now, fast forward to 10, 11 years later, and this is the current recession. The blue—the darker color—is the U.S. GDP quarterly growth, and the red is the South Korean GDP growth, and this is where we get to the title of our topic. The terms “rubber ball” and “dead cat bounce” are Wall Street trading terms. So when a Wall Street trader looks at a stock chart, there are certain names

they give to different types of charts. A “rubber ball” chart is something that has collapsed and has bounced back up, and not just bounced back up, but has resilience behind that bounce—it’s going to stay up. And according to the chart, it looks like it will stay up. A “dead cat bounce” is, as you can imagine from the description, is something that falls dramatically, comes up a little bit, but there’s nothing really holding it up—it’s probably going to come back down, or even if it doesn’t, it’s not going to come up as much as one would hope. So I look at these two charts put together here, and at first it looks like the U.S. is the rubber ball—the blue line went much farther down and came way back up. But look at that decline in the end—those are the most recent quarterly numbers, and essentially there’s not that much resilience behind that recovery, at least in terms of my interpretation of that chart. What you see in the Korean chart is, in the Korean line, it entered the recession later, it exited earlier, it fell less, and it recovered just as strongly as the U.S. So, it essentially had, as bad as things were in Korea, it had a better time than the United States. So what were the reasons for this? And I think this is the fundamental reason. Korea has a culture of job security and employment protection. It’s not just a government policy, it’s a very important part of the culture. A job is more than just a job in Korea—it is your life, and if you lose it, it’s a humiliation beyond what it is in our society, in the U.S. society. Everything is wound up in your employment. If you want to talk about a rubber ball, that U.S. employment figure looks like a rubber ball chart, but unfortunately this is a negative chart—the increase is an increase in unemployment. We today have 9.7 percent unemployment in the US, and in terms of what I would call real unemployment, when you have factored in people who have stopped looking for work, and people who are severely underemployed—they’re only making a fraction of what they used to make—we’re closer to 16 percent unemployment. I think if you go back to the U.S. chart here and that downward trend, I think that’s the reason why. I think that there is no such thing as what people are forecasting as a jobless recovery—I don’t think that’s going to be possible. I think because of the unemployment, it’s going to be closer to a double-dip recession than a jobless recovery. Having widespread employment is more than just keeping people employed—it’s reducing the anxiety in the overall population so that people spend more, people are more willing to invest, people are more willing to participate in the economy. When you have 16 percent unemployment, that dramatically affects the psychology of the entire society. So investing as a society and as a government in fuller employment is not just for the sake of those people, those few percentage points of people who’ll get jobs—it is for the good of the entire economy. One other point that I would like to make is that, you have three lines here, including the layoff rate, is the bottom line, and you can see a pretty dramatic spike, but that’s not the whole story. The real story here—and this is the U.S. we’re talking about in this chart—the real story is the top line had a dramatic fall-off in hiring. If you’re trying to reduce unemployment, you can’t just stop layoffs—you have to somehow spur corporations to hire people during the worst of times. The real story in today’s jobless rate is not necessarily the number of layoffs that we’ve had, but the lack of hiring that we’ve had in the last two years.

So how does Korea keep this—the red line, the Korean unemployment is fluctuating between three and four percent, dramatically lower than the US, and dramatically consistent. How does Korea do it? One aspect is job sharing, and this is not uniquely Korean, there are European countries who do this, there are some other Asian countries that have job-sharing programs. But we would argue that job sharing is a fundamental part of the society, of the Korean culture, and of the economy—it’s a fundamental institution within the economy. When things go down, instead of laying off, the first choice is always to job share, which essentially means, instead of

firing one person and keeping one person, you have two people reduce their hours by half, and each of them makes 50 percent less. So you keep the jobs, but people are getting paid less, and essentially allow people to keep living their lives without incredible disruption and humiliation of losing their job. By having job sharing and avoiding layoffs, you increase the level of trust between the worker and the employer. And again, I don't want to beat this too much, but it is important—avoiding that humiliation of job loss is very crucial to making things work. And again, the Korean system, it's not just a matter of job sharing, there are also tax incentives and government policies that encourage hiring during downturns. And in the most recent downturn, that includes systems that involve hiring thousands of people at lower wages generally, but still forcing corporations or subsidizing corporations to continue hiring in the midst of the downturn. As a result of this, the number that we found was approximately one out of every four Korean corporations had some form of job-sharing program. There were as many as 265,000 people sharing jobs in the city of Seoul alone. It's part of how the economy operates and part of the life there. And it's entrenched in Korean culture and in the history of Korea.

Korea is traditionally an agricultural society based on rice cultivation. Rice cultivation is a collective exercise; it's very difficult for one farmer to have his own rice farm. It's a village effort, and each of the aspects of rice cultivation is a collective process, and that has continued throughout the history of Korea as a modern nation. Some examples are the *Saemaoul Undong*, the new community movement in the 1970's led by President Park; it was a village transformation, a village modernization program that was a collective process. I would say another example of pain-sharing is the famous giving of jewelry to the central bank during the IMF crisis, where literally hundreds of millions of dollars were raised by people essentially donating their jewelry to the central bank as a way of improving the current account deficit and paying off debts. Another example, just kind of giving a flavor of the collective spirit in Korea, is, there was a significant oil spill in 2007, and I think the way that that's traditionally handled is you have professionals going in and getting paid lots of money to clean up the beaches. In Korea there were thousands of people that essentially dropped what they were doing, went to the beaches and volunteered their time. People spent weeks out there on a purely voluntary basis cleaning up the beaches from all walks of society. And I think that's an inherent impulse of Koreans—when bad times happen, you join together, and you share the pain, and therefore are able to get through it easier.

I just wanted to put these quotes up here. I won't read them, but essentially this was from the same meeting, where Tami Overby, the head of the American Chamber of Commerce in Korea, and Knowledge Economy Minister Lee both get comments about this concept of job sharing with very different messages. And I think that Tami Overby's concept of this wouldn't work in America is a very commonly held belief. And I would disagree strongly. But first let me make her argument—and it's not necessarily her; I don't mean to be singling her out. The argument of the negative sides to job sharing and paid sharing on one level. America has a very flexible labor market; American corporations are allowed to lay off people and hire people at will, and because of that, we supposedly have better profitability, and our corporations are better able to compete because of that flexibility in how they hire and fire. And there's something to be said about that. I'm not discounting that altogether, but that hasn't always been true. And this is a little known fact: in fact, in the midst of the beginning of the Great Depression, that was one of the first impulses of our government—was to launch a job-sharing program. Share the Work movement

was meant to create as many as 1 million jobs that would otherwise have been lost, and over 3,500 companies joined the movement. It was successful in the sense that it made things a little bit better. It wasn't a solution to the Great Depression obviously, but it was, I just want to want to say that this is not entirely foreign to the American way of doing things.

So the second of the three factors that were involved in the different reactions to the recession is currency valuation. This is a won-dollar exchange rate, and what you can see in the beginning, in the first quarter, or around the first and second transition of the first quarter of 2009, right when things were their worst, was a dramatic devaluation in the won, and that was according to government policy—that was a government-created effect. And that was essentially one of the tools that the Korean government used to improve the economy and salvage things. If your currency has a lower valuation, your exports are more attractive overseas, and therefore the export growth in the second quarter of 2009 was off the charts—was unbelievable. If you go back to, you see when that happened, right at the trough of the Korean recession, was when the valuation changed. So that was a significant factor in the quick recovery that Korea had. So I would say that there is a message for the United States here, and that is that the valuation of the currency should be a tool like any other tool in the government and in the financial leaders' toolbox for dealing with recessions. The United States has had a strong dollar policy officially for decades—that is the mantra of American monetary policy, a strong dollar. I would argue that maybe it's time to revisit that unquestioned assumption that a strong dollar is in the best interests of the economy. We're now entering an era where there's tremendous downward pressure on the valuation of the American dollar, and the response from most American circles is “Oh no, that's an emergency, that's a crisis, what are we going to do?” Well, what if we just let it happen? What if we allow the dollar to devalue as a way of improving our economic competitiveness in world trade? I would say that there is, of course, an important difference between the United States and the Korean economy when it comes to the currency valuation. Korea is an export-based economy; the United States much less so. However, we're entering a different world, and world where trade is much more important to the American economy and should be valued much higher in the future. And things like the Korea-U.S.FTA, which right now is kind of in legislative limbo, I think should be placed at a higher priority in the United States' list of things to do, and that we should be pushing an export-driven economy much more strongly than we have in the past and make that part of this economic recovery.

The third factor in Korea's recovery goes back 10 years ago, 12 years ago, to the heart of the IMF crisis. I'm going to give three examples of companies that their success of the last few years were rooted in the IMF crisis itself. One example is Neowiz, which is an online video game company, and essentially they have created a new business model for video games. It's a free video game: you only play it online, you don't buy it on CD, and the way that they make money is, rather than selling a CD for the use of a video game, you buy items that are used in the video games. So if you're playing like a first-person shooter game, and you're a sniper in the jungles of Africa, and then you're transported to Siberia, you need a white cape, and you'd be willing to do anything for a white cape because you're wearing jungle camouflage. You'd even be willing to spend a couple of bucks or a couple of thousand won in order to get a white cape. So essentially there are some virtual items for real money. And this is now a hundred million-dollar revenue company. And they have essentially created this entirely new business model for the gaming industry, which is being copied everywhere now. It doesn't work if you have a slow internet connection; you need

fast broadband connection. In the midst of the IMF crisis was when Korea really filled out its ubiquitous high-speed broadband network, which reaches almost 98 percent of the population. Everybody has affordable access to the internet in Korea. That was essentially started in the middle of the IMF crisis—this entirely new company, this entirely new business model was started. The seeds were planted in the midst of the IMF crisis.

LG Chem is a division of LG, one of the largest corporations in Korea, and, again, in the midst of the crisis 12 years ago, they essentially made a decision to invest and develop their way out of this. And not with a short-term, “Let's get this fixed in one year or three years,” but in ten years. They felt that there was going to be a tremendous market for electric vehicles in the world, and they wanted to create a battery that would be used in those vehicles. And they started that process back—literally, they told us that the first meetings around this battery project were in early 1998, the height of the IMF crisis. They designed a battery that is safe, durable, and can be mass produced in such a way that it's cheap enough for electric vehicles. They surprised everybody a year ago when they won the Chevy Volt contract from GM. The Chevy Volt is going to be the first American-made electric vehicle coming out later this year. This contract could in the end be worth billions of dollars to LG Chem. Since winning this contract they've won several others for other car companies that are making, that are in the process of developing electric vehicles. Again, the seeds were planted in the midst of the crisis. The company looked at this with a ten-year strategic vision, not worrying about what was going to happen in the next quarter, but worrying what was going to happen in 10 years—something that Korean companies are very good at, and something that U.S. companies, should I say, are challenged.

Finally, I will mention Hyundai, which is the darling of the automobile industry today and has had dramatic market share in the midst of this recession. All of the reasons for its success in today's recession were, again, seeds planted in the midst of the IMF crisis. The company was on the verge of bankruptcy. It dramatically cut back, closed factories internally, but it also bought Kia at that time. Kia did go into bankruptcy, and Hyundai was able to get its assets at prior sale prices. Daewoo at the time was trying to invest its way out, build new factories and essentially expand out of the recession. That strategy failed, and Daewoo went into bankruptcy. But Hyundai emerged from it, and for the last two decades Hyundai has cultivated a culture of quality that I think is the equal of any other car company. When they first came out in the seventies, they made really cheap cars that cost—really bad cars that were cheap. Today they make extremely good cars that are cheap, and the consumers of the world have rewarded them for that. I think they're now the fifth leading carmaker in the world, and they have about a five percent market share. They emerged from this recession stronger than just about any other carmaker in the world.

So to sum up, I would say that the three items that I think are the most valuable things that the United States could learn from Korea. Create a culture of intolerance towards layoffs and incentivize hiring during downturns. We're doing a little bit of that right now, but it could be done on a much more massive scale. Secondly, the currency. Approach the valuation of the currency not with the thinking of “We need to protect certain industries, or have benefits for certain parties,” but value the currency according to the best interests of the overall economy. When you devalue a currency, it does hurt; there are negative side effects to that. I'm not saying it's a cure-all. But those side effects are shared evenly. It's a way of spreading pain and sharing

the pain, which is something that we, in the United States, I believe can learn from Korea. And finally, cultivate a culture of strategic long-term planning, not one-year planning or five-year planning, but ten-year planning. Cultivate that culture within our corporations. Make that a priority. And this isn't a matter of government policy; it's more of an issue on the corporate level, but again, something that the U.S. can learn a lot from Korea. And that is our talk. Thank you very much, and I'm going to open it up for any questions.

Q&A

Ku: Thank you. Why don't we just do that? Why don't we open up for questions? If you could raise your hand, state your name, and if you have an affiliation, please give us your affiliation. Back there.

Question 1: Hi, thanks. I'm a little surprised you didn't mention nuclear. There's been an enormous explosion of the nuclear industry here, which, if I understand it, a lot of the Koreans look at the decision to go nuclear early on as this sort of driving force that brought Korea to where it was. And you look at this UAE deal ...export... , I mean that (*inaudible*) very much like what you said about long-term planning. Clearly we're looking at post-'98 and even the so-called “Green Think,” you know, their view of the “Green Think” is not alternatives to nuclear power—they're going all out. I'd like to hear what you think about it.

Jaffe: Well, as Dr. Ku mentioned, that's my day job, I'm an energy analyst, and I'm very familiar with Korea, and we have a chapter in the book about energy in Korea. South Korea made a strategic decision, as you said, going back to the fifties to depend upon nuclear power. The reason was simple: it had no other choice. It has a little bit of coal but not much. It has no oil, very little oil and natural gas. There simply weren't other good alternatives. It has successfully created a nuclear industry in Korea that is as large and as quality-driven as any country in the world, and now it's in the process of taking that expertise and taking it overseas. As you mentioned, the UAE deal, which could end up being worth—I can't remember the number now, but it's a multi-billion-dollar deal...

Ku: 40 billion, some say 45, but I think it's around 40 billion.

Jaffe: I wanted to say that number, but all of a sudden my mind was saying... Yeah, and as much as we can talk about Hyundai, how many Hyundai Genesis sedans does it take to get to about 40 billion dollars—it's not one sale. So that is certainly a growth driver. But it couldn't be done if Korea had not created its home-grown nuclear industry. Today they get over 40 percent of their electricity from nuclear power, and they're continuing to build that out, and continuing, as you said, using it not just for energy security reasons, but as a way of getting to lower carbon economy. I have a feeling that they're going to win many other contracts of that scale in the next few years.

Questioner: As far as what we've learned in the U.S., I think that's a good lesson plan, you know, this nuclear thing here.

Jaffe: Well, yeah, although the difference is we have coal. The driving motivation for nuclear in the U.S. has more to do with diversification of resources rather than, man we have no other choice. But certainly, I believe that there is going to be a revival of the U.S. nuclear industry. We're seeing the loan guarantees; we're building those out. But going back to this concept of strategic long-term planning that was a decision that had long-term ramifications for Korea that we simply have not been able to make. We essentially do not have an energy policy in this country. We just let things happen the way they will, and as a result, we have some problems today. And I would mention also, just in comment to your “green” comment, Korea has a very strong subsidization policy towards photovoltaics, and it has significant wind development. So it is developing alternative wind and solar also, but nothing on the scale of nuclear.

Question 2 (Neil Shenai): Thanks, my name is Neil Shenai. I'm a first-year Ph.D. student here at SAIS, and I study political economy. So one of the things that definitely appeal to me about your talk is this notion of applicability in the Korea case and the United States. But I approach this question as somewhat of a skeptic, so I have three responses to the potential takeaways, and I want to hear what you want to say. The first is this notion of job culture. Seems to me like Americans are far more individualistic than any East Asian country, and for that reason, Americans aren't willing to make the same trade-offs regarding job sharing that might have been in Korea. And the second thing, with regards to currency policy, it's a lot easier to devalue your currency when you're not the global reserve currency, when your consumer doesn't account for the entire global trading system in the same way that the United States does. So thereto, if we were to devalue, then any other country would devalue, and the benefit might not be there. And finally, with regards to strategic planning, just to define the American enterprise, we never really had this crisis, an IMF crisis of our own 10 years ago. Maybe 10 years from now we'll look at companies in the same way and say, because of the global financial crisis they were able to take advantage of ___ (52:40) prices, consolidate their industry, and now they're a global leader in that field. So to me it seems like you can't really say that that hasn't happened in the United States because we haven't had a deep recession for 30 years. So, I know that's kind of a lot, but just some other things to consider. So those were kind of my initial reactions.

Jaffe: To your first point about America being a much more individualistic society—yes, there's truth to that. However, it's not necessarily a question of individualism versus groupthink. It's a question of job security, and as individualistic as we are, I think we would still accept job security if given to us on a platter. I remember having an argument with my mother, very liberal person, and she was arguing, “The unions need to be stronger in America, or else this country is going down,” and I said, “No, the flexibility of the labor market is one of the strengths, and yeah, people get laid off. However, it's a price we pay for a very strong economy.” Well, having been laid off since then myself, I did feel a little bit different. It's not a fun experience, and it changes your perspective. A lot of people are experiencing layoffs as it is. I wouldn't necessarily argue for a lifetime job security in the United States or anything dramatic like that. All I'm saying is we have something to learn from that concept, and we should be embracing those principles to some degree rather than completely—I believe that most U.S. economists and financial leaders would exceedingly disregard that advice. And secondly, you're very right that the United States has its obligations as a global reserve currency, but I would make a little bit of an argument counter to that. I would essentially say that we have a number of allies and not-so-friendly allies who hold our debt, and that debt's going to be worth less if we devalue. And essentially, that's one of the

main reasons why we don't devalue, is because we don't want to hurt the people that bought our debt on trust. Well, maybe those aren't our best interests; maybe we need to be refocusing our priorities a little bit. But your other point about that is dead-on. If we devalue, probably everyone else is going to devalue, so that's a tricky part of the advice, and I'm not sure how to manage that. And I guess the third, remind me of the—

Shenai: Just the idea that we didn't really have the chance to see American companies have this long-term vision because we haven't really gone through a recession.

Jaffe: Yeah.

Kim: You don't have to go through that to embrace long-term planning. Because they were planning like that before that.

Shenai: Can you really say that American companies don't plan that far ahead? Do you think they do it more quarterly?

Jaffe: Definitely, I believe that's more true—I mean, it's not always true. I work for a company that's made an investment that it has been cultivating and allowing to grow slowly for over eight years now, and that's an example of an American company that, in my opinion, is doing great. That's not across the board, of course. In general, the American business culture is very quarterly-focused. It's very hard for an American executive to say, “We're going to make this work in 10 years,” because his or her main focus is, “We need to make this work in three months.” And that's very important in our culture.

Shenai: Thank you very much.

Jaffe: Sure.

Question 3 (Daniel Braswell): Hi, my name is Daniel Braswell. I'm from the US-China Economic and Security Review Commission, and I had a couple of questions. The first one is that your argument reminds me in a lot of ways of the arguments that were being made about Japan and the United States in the '70's and '80's. Many of the things that were touted as serious strengths in the Japanese economy, such as reliance upon these large national ___(57:34), a labor market that was less flexible, an industrial policy that was very well-directed. They ended up proving to be significant liabilities down the road. I guess I wanted to ask, do you think that the structure of the Korean economy poses a liability in the long run? And my second question is, I know that the Korean economy relies very heavily upon its trade with China, and I know that China engaged in a very large-scale stimulus policy, basically encouraged Korean exports to China and Korean investments in China, which helped the ___ (58:06) economy. I wanted to ask you, to what extent do you think that external factors that were unique to the Korean situation, rather than things unique to the internal situation in Korea, are what kind of explain maybe the different responses to the recession and to what happened in the United States?

Jaffe: Well, to your first comment. When thinking about this topic, and coming up with things that we think the U.S. can learn, notice one of our bullet points was not the United States needs

to have *chaebol*, or large multinational conglomerates that completely dominate the economy. Although that's an important part of the Korean economy, and there are certain attributes and positives about it, that is certainly not something that we have to learn from Korea. I think there are a lot of negatives to that economic structure also. So we tried to talk about the individual and specifically policy-driven types of issues that we think the U.S. could benefit from. So your second comment about China. Korea has traditionally been very interdependent with the United States' economy, and the U.S. economy was by far the largest export market for Korea. That's no longer true: Korea exports more to China than to the United States today. The relationship—and we have a whole chapter in our book about the relationship with China and the challenges it presents to Korea—is a very intriguing one and an interesting one and potentially difficult one for Korea. Korean companies have benefited greatly from investing in China, putting factories in China, in the last 10 years or so, and I think they went there with the mindset of—they're doing what we did in the 1960's. So we're going to go in and help them do it, and for 30 years we don't have to worry about competing with them because it took us 30 years to do this. Well, it's taking them 10 years, or less. There are these Chinese companies that are direct competitors with Korean companies today. If you look at the flat-panel display market and television market, when big-screen TV's first started appearing 10 years ago, it was all Samsung and Sony's, and Samsung outcompeted Sony. LG got into it, and it was Samsung, LG. Today, Vizio—who ever heard of Vizio? Where'd they come from?—they're a major player, a Chinese company that is a major player in the market. They have literally appeared out of nowhere. Similarly in the photovoltaic case, which I follow quite closely, four years ago the German companies dominated photovoltaics. Literally out of nowhere, China has taken dramatic market share, and the German companies felt like they were not going to be able to compete on quality. But they can—they're doing it as good as anybody else, but cheaper. So Korea has a significant competitive threat from China. Luckily it also has a significant market in China to export to, and it represents a significant market for Chinese imports to spur economic growth in Korea. But I would say that the emergence of China, of the Chinese economy in the last 10 years, the dramatic growth in the Chinese economy, has probably been one of the most significant factors in what we call “the new Korea.” It simply wasn't a big factor 10 years ago, but it is today.

Question 4: With regard to both job sharing as a tool in the downturn and the use of lower wages for the entry-level, what are the—maybe you could give us a little more information. For example, is there a mechanism for forcing the transition out of the suppressed, or discounted wages when the economy recovers? How are fringe benefits handled when you have two people sharing the same job?

Jaffe: Well, of course, the most important fringe benefit is health care, which is not an issue in Korea because they have nationalized medicine. I don't believe that there is a mechanism for bringing those salaries back up once the downturn is over, but the market should take care of that itself. If there is demand for those laborers at a higher price, they'll leave and take another job. So I don't know if it has to be a heavy-fisted policy that goes in coordination with the initial policy of getting them to make the hires.

Question 4 speaker: Does that include a sub-minimum wage, for example?

Jaffe: I don't think so. No. The way that these structuring programs are incentivized by the government is essentially tax credits. The government will give more tax credits; another issue is loan guarantees. Two of the companies that participate in job-sharing programs, and that's how they subsidize the creation of these programs. So it's not just a matter of "do this, or else something bad is going to happen to you"; they provide benefits to participating programs.

Question 4 speaker: And these solutions are embraced by the political spectrum?

Jaffe: Yeah. Unless someone knows differently, my impression is that it is embraced across the political spectrum, by both the right and the left, and not only that, but it is done, especially in this past recession, there was significant cooperation between the trade unions and the corporations to facilitate this happening. The Korean trade unions can be very extreme and very politically vocal, but it was unusual during this last recession that there was so much cooperation between the two sides in creating and funding these programs.

Ku: Other questions?

Question 5: You have mentioned job security. Probably one of the transformations that have happened as far as the labor market is concerned since 1997 has been the higher percentage of irregular workers, contract workers being called in. How do you see this issue—irregular workers evolving if the Korean economy takes a turn for the better?

Jaffe: That is a very good point, and there has been this development of temporary workers, contract workers, and that's essentially wedged itself into Korean society and Korean business culture. Just to walk back a little bit, we're talking about Korean job security in this current recession and how important that is to society. It's dramatically different than what it was 12 years ago, before the IMF came in and demanded layoffs. The sense of a guaranteed job for life and the impregnable aspect of that concept was much stronger back then than it is today. So Korea certainly has changed to some degree in regards to job security.

Kim: A lot of the irregular workers are also immigrants. It's a big issue.

Jaffe: There's a dramatic increase in immigration in Korea, and often those immigrants go into contract positions or temporary-type positions rather than the traditional salary role. I do think that this issue of contract working is a change in Korean society. Over the last 10 years we talked to a number of people about this, and a number of people are worried about it, that it is essentially a shortcut around the job security issue. But I wouldn't necessarily make the claim that everybody's heading in that direction, that it's a sea change in the society, and maybe it's a necessary reaction to allowing a more flexible labor market. The question is, is somebody who takes a temporary job, or a contract job, going to be shut out for the rest of their life from a salary job? And that's the important transition, and I don't know if it has reached that level of severity. If you end up being a contract worker for the rest of your life, you have a very different lifestyle than you would have as a salary worker. And then you have the problem of two classes of workers, and that is a significant issue.

Ku: I have a follow-up to Greg's question. If you look at the unemployment rate, the chart has it seemingly around four or five percent, but isn't this also a definitional problem? Because so many of the young Koreans, needing colleges, just exit the job market, especially the young women. And so, in fact, when you talk to people, the official unemployment rate vs. the real unemployment rate, I've heard some people say 10, or exceeding 10 percent. So is this how you slice the bread? Or is there something there with the unemployment rate?

Jaffe: I think that's an excellent point. However, there's a reason why we measure unemployment by the number of people that are looking for jobs. Because if you're not looking for a job, that means you probably don't need a job. I mean, as harsh as that might sound, yes, some people might get disturbed if they don't get a job for a few months, but in general, if you need a job, and your family depends on you, you will be looking for a job. I would say that the phenomenon that you're talking about is almost a voluntary unemployment—you exit the market and you live with your folks for a while, or at least survive off of your employed folks. But when you're talking about the overall impact on society, that's less of an issue than people who desperately need a job to put food on the table. On an individual basis it might still be a traumatic issue to not have a job, but from society's point of view, I think it's the ones who are looking for jobs and can't find one, that really affect society. And it's not just a matter of five percent or ten percent of us don't have jobs. Those of us who do have jobs are looking at these five or ten percent of people with tremendous fear that that could be me next quarter or next month or next week. And that changes how we look at the world and how we participate in the economy. And I do think that is an enormous factor in the quicker recovery and the less violent recession in Korea, was this concept of higher unemployment, the fear of being involuntarily unemployed, it changes who you are and how you go about your business.

Ku: Other questions?

Question 6: I wonder if you could expand on that unembraced question. Who are the immigrants? Is there resistance or resentment rather? And is Japan watching?

Kim: Yeah, the influx of immigrants in Korea has been fairly significant. I was in Korea last year, and I visited a church that runs a—they do social work for immigrants. And there were two things that they were doing: they were helping foreign wives who were coming into marrying Korean men. You know, a lot of them come from rural areas but some of them come from inner cities. And number two, they were helping workers. They also had a shelter, they had a housing area in the basement of this church, and by room there were different nationalities. In the first room there were these elderly Chinese women; in the second room I want to say (unclear, 1:12:54), and then it just sort of went on and on and on. There's different rooms and different people, so you could really get a feel for, not the underbelly of society, but that there were these people who were coming in and getting jobs. One of the (unclear, 1:13:13) was a, I think he lost his way in a construction site, and he'd been living there for 17 years in this church. And so you could get a feel for who was coming in and what they were doing and what kind of needs there were. You're really seeing them in the construction and the service sector. They have issues, and the government's response is that these social agencies are responding to that. But they've become a necessary component of the economy. And, what was the question, because I—

Question 6 speaker: Is there resentment? Do you have anti-immigration...

Kim: I mean, there are obviously a lot of people who are poor in Korea, but the living standard has gone up tremendously. There's an issue now with people who are growing up in luxury—there are social issues that are coming into play. So what are the issues—I'm sure there is to a certain extent, but there is also, I'd say, a certain necessity.

Jaffe: Yeah, again, from my outside perspective, I'm astounded how little resentment there is towards this upper class. I would say it's less than there is here in the United States, and the anti-immigrant fervor that has happened in the last few years. This is completely foreign to Korean culture—the idea of other people moving there and taking jobs, and yet, it is to a great degree embraced, it's part of the official government policy as a response to demographic challenge. There are certainly issues of racism in Korea, there are issues of xenophobia, anti-immigration issues, but from my own personal perspective, I'm just amazed at how little there is, when you look at the historical context, and how much the Koreans have embraced the concept of multiculturalism, which simply was not talked about, or there was no need to talk about it because there was one culture there. And that has been a dramatic change. In our book we mentioned Hines Ward, a phenomenon. Hines Ward is a half-black, half-Korean Pittsburgh Steelers wide receiver who was a Super Bowl MVP in '05, I think? If you had told me that a half-black, half-Korean guy would go to Korea and be greeted by thousands of people cheering for him back in 2001, I would've been shocked. But he is not only accepted but embraced by the culture and just showered with affection and acceptance in a way that's very different from the way the culture was—I don't know, maybe my expectations are too strict, but I'm really impressed by that, not just the fact that it happened, but the changes in the society that have happened in the last 10 years.

Kim: The penetration of immigrants in Korea is pretty interesting. It's not just happening in the city areas. When I was traveling, I went to Buyeo to visit the historical sites. And we sat down in a restaurant, and we're eating, and I look back, and there's a Russian woman working in the kitchen. And when I left, she was eating lunch with all the Korean women there. And she was maybe 50 years old; she'd come here to work, she'd been living here for about a year, and she was a part of the fabric of this pretty small town in Korea. I was really surprised by that, because during the many years I'd visited before I'd never seen that. So I think I could get a sense of how widespread this is.

Ku: If you go to rural areas, and go to an elementary school, something like one out of every five children have a mother who is non-Korean, of Southeast Asian background. And there is tension there. If you recall a few weeks ago, Cambodia made a law that said no Cambodian women will be allowed to marry Korean men, and I'm not sure how that's being played out legally. There are various countries that have made cases with the Korean government about the protection of their citizens, largely the women who marry into Korean male households. Let me just add, because we've taken a delegation to Burma, and there is this view of Korea—and this is also a part of the Korea that Sam and Myung-oak write about is this Korea that is not just exporting goods but also culture. And we were in Burma and the Korean embassy told us, “Ten years ago when I traveled to Southeast Asia you couldn't get a Korean channel in a hotel.” Now you get at least two Korean channels—KBS World or Arirang. And the Burmese government

had 55 episodes of various Korean soap operas and shows. The Chinese and Japanese government protested, saying there were too many Korean shows, and so they cut back to 15 episodes. Except the wives of the generals complained because they couldn't see their favorite shows. So the generals were forced to go back, and now there are more than 55 episodes per week on the Burmese channel. And so what that does, in a way, skews how Southeast Asians view Korea, and you have rural Vietnamese and Cambodian women somewhat misled by what Korea is going to be like—you know, they think that everyone lives like a character in the soaps. And I provide no value judgment there. On to the questions. Yes. Do I see a hand on this side?

Question 7: My question is more oriented towards stimulating some thought. Let's assume the green economy really begins to define new classes of jobs. So it's a new segment of the economy...so we're talking about defining new jobs. And in that process you're defining job creation, but you also recognize that there are corporations in Korea and in the United States that have respectively interesting pieces of technology that are sub-systems. What are the possible collaborations that you would imagine between a South Korean company and a U.S. company that create jobs and how would that look?

Jaffe: I would say that it's already happening. There's significant collaboration in the renewables field, for example. One example is SunPower, which is an American photovoltaic manufacturer. They make high-efficiency panels; they're now a billion-dollar revenue company. Two years ago they were less than a 100 or 200 million-dollar company. Dramatic growth. But they don't make their own silicon. They have decided that it's not in our core interest to be making the actual silicon that goes into our panels. It's actually made by Korean, Woojin, I think was the name of the company, a Korean silicon manufacturer, which excels at making very high-quality, ultra-pure, non-crystalline silicon. That's an example of a Korean company that has strength in a particular area and an American company that has strength in a particular area joining together and ending up with a very popular product. The other area where Korean companies are getting heavily involved in on the renewables front is in development. Samsung has now made a huge splash in Ontario, and also in California, creating essentially solar farms and wind farms, and actually building them. Traditionally you would think that an American company would excel at that, but this is a case of a Korean company seeing an opportunity, seeing a little bit of oligarchy in that field that can be penetrated and outcompeted, essentially, and making a big splash and signing a billion-dollar contract to do that. I do think that the green economy is a very fertile area for both Korea and the United States, and they're kind of in the same boat now, in the sense that 30 years ago, Korea would be the low-cost producer. Today, it's looking to be the value-added producer just like the United States. So in a sense, they're in the same situation.

Question 7 speaker: Where are the preparations? What kind of collaborations do you see like in the SunPower case?

Jaffe: So Daewoo is a very good example because it was bought by GM; today it's GM-Daewoo, and I think they're actually going to re-badge the cars as Chevys in Korea. So it's a Korean automaker making American-brand cars selling in Korea. That was also one of the options which, for some reason, didn't work out, but when Hensky purchased the Saturn brand. They weren't going to build more Saturns; they were going to buy Chevys from GM-Daewoo and bring them to the United States. It almost worked out that way but in the end the deal collapsed. But that's

certainly an area where there's a lot of potential for collaboration. And again, if you look at the Hyundai case, Hyundai does not make cheap cars, they make spectacular cars—I couldn't speak highly enough of Hyundai's cars. But they've successfully done it in such a way that they're able to sell at a lower price point than Toyotas and Nissans and, to some degree, the GM's of the world. And going back to the emergence of China, you have dozens of Chinese auto manufacturers looking to emulate Hyundai, and I think that's a case where it will take decades to cultivate that corporate culture of quality that you need to have. And we spoke to a number of people in the auto industry about what it takes to build good cars, and it's a very complicated process, and it's not easily replicated quickly enough.

Ku: I'm going to put Dr. Chung on the spot here. As you hear this conversation—Dr. Chung is our visiting scholar at the institute, but he's also a most recent president of the CJ Group, which is a huge conglomerate in Korea, and he's spending some time with us researching. So if there's anything that you want to comment, please feel free and jump in.

Dr. Chung: Actually I have to say one thing about the job security of anti-immigration. These days one of the problems among young workers or among college graduates is they don't want to work in small and medium-sized companies. So those companies have real difficulty to find new employees, so they try to find them from outside. And we talked about immigration—as of last year, 40 percent of Korean men who married in rural areas married with a foreign woman.

Forty. Four zero. Yes, it's a huge number. It's a dramatic increase. From Southeast Asia or Russia or Uzbekistan. Another thing I'd like to mention is, actually the strategic long-term planning, that's probably originated from ownership management. If we change authority, the shareholder wins in that. I think that, of course, they have some negative things, but the business culture of conglomerates has changed dramatically since the IMF crisis. Actually they underwent a dramatic change of structure of the company, including (unclear, 1:28:34) structure, and also the internet affected a lot the business culture of Korea. Maybe I can mention internet police. The mechanism of the NGO's—their power and their effect have dramatically increased since the IMF crisis; they just watch what the companies are doing. So now the companies, especially the conglomerates, are very careful about their business-making. Also they're very careful about their images from the outside world. I think that affects positively the decision-making process of the conglomerates in the long run. Of course, their culture of long-term-oriented management remains and remains strong. So I think it's going to be positive for the Korean economy and business culture.

Ku: Thank you. Other questions? I've got one. Another one. Sam, as you talk about, and looking ahead and where the South Korean economy's going, and you mentioned all of these, you know, the positive things. But these are the main large conglomerates, and as the gentleman said, things that we kind of admired about Japan 20 years ago became a real problem for them. In the US, small- and medium-sized companies are engines of growth, and they provide creativity, ingenuity, new products, whether it's the energy start-ups or the pharmaceutical start-ups. I realize that in the Korean structure that's very difficult—everything is perfectly and horizontally managed by conglomerates, and as Dr. Chung said, these small- and medium-sized companies—nobody wants to work for them because they want to come out and work for those conglomerates that they can identify with. What do you see in, five, ten, fifteen years down the line, how the

things that you think make the new Korea—is that going to continue, or do you think it will all ossify?

Jaffe: I think that the conglomerates are not going to go away. They're a significant part of the economy and of the society and it will continue to be that way. We have seen their influence on the decreasing trend compared to historical norms. And that decreasing trend will continue. But, like I said, they're not going away, and I do agree that there has been a dramatic cultural transformation in many of these *chaebol*—how they manage their operations, how they define success, how they define the proper way to do business, and I expect that that will continue. There will continue to be corporate reform of the management structures of these companies. But, I don't look at Korea and say, “Oh, you've got to get rid of your *chaebol*.” These are successful companies, and they do what they do very efficiently and successfully. It's slightly different from how we do things here in the United States, but not entirely. I mean, you look at General Electric, and you could call that a *chaebol*. And that's one of the most profitable and effective companies in the world. What I would say is a significant challenge for the way of doing business in Korea and the way that the economy is structured is that there has been a government-large corporation alliance that has been a fundamental part of how the economy has grown so dramatically. And when Park Chung Hee said “We need a steel industry.”—boom, within years, there was a steel industry out of nothing. That worked in the 1960's; it no longer works. And I think that's one of the fundamental challenges, is how to manage that governmental corporate relationship, and an example that really struck me as off was, Lee Myung Bak was traveling somewhere overseas and someone handed him one of these little Nintendo video game players, portable video game players, and he looked at it and was like, “Oh wow, that's cool. Let's make one of these in Korea.” And sure enough, there was a research institute in Korea that launched a program to develop a Korean-made, portable video-game player. That's not the way to direct business development these days. I think if you look at the example we gave with Neowiz, that's an example of a Korean company doing something entirely different and succeeding dramatically. You know, that's the kind of thing that the government should be subsidizing and pushing for, rather than saying, “Oh we need to do what Japan has already done, or what a Japanese company has already done.” And the economy has grown so large, and it has gotten so complicated—the global economy has gotten so complicated—that that traditional governmental corporate relationship is much harder to steer from a centralized point.

Kim: (*unclear, 1:34:38-43*)...that's a cultural issue. They do that because they want to say that they work for Samsung, and it helps. That is one of the challenges going forward too for the Korean economy is the culture. The culture, working in businesses, and the ability of Korean companies to handle new ideas, take in new ideas. While the *chaebol* may have changed a lot, there is still a very collective, sort of, “yes ma'am” culture. It's very different in the United States—people will work for small companies because they don't really care about the name. But in Korea that's different.

Jaffe: Right, in some ways, it has more cachet working for a giant corporation. We had a number of discussions with a Korean internet entrepreneur who talked about the problems of being an entrepreneur in Korea and how it's such a difficult environment. He was successful in Silicon Valley, and he went back to Korea to create his own company. You're not going to create a Silicon Valley in Korea. The difference in cultures is so dramatic. But nevertheless, there is

something of a thriving internet industry with start-ups, with venture capital, and I don't think it'll ever rival the size of what we have in Santa Clara, but it is possible to do it, but it is a lot harder.

Ku: And it gets gobbled up.

Jaffe: Yeah, and he works for Google.

Ku: And on that note, I wanted to thank our authors, and thank them for coming here, and it's been a terrific discussion. Thank you very much.